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Message Text

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ACTION EA-12

INFO OCT-01 ISO-00 SP-02 ICA-11 AID-05 EB-08 NSC-05
TRSE-00 SS-15 STR-07 OMB-01 CEA-01 CIAE-00
COME-00 FRB-03 INR-10 NSAE-00 XMB-02 OPIC-03
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E.O. 11652: N/A
TAGS: ECON, ETRD, EFIN, RP
SUBJECT: FIRST SEMESTER EXTERNAL TRANSACTIONS

REF: MANILA 11929

1. SUMMARY. PRELIMINARY FOREIGN TRANSACTIONS DATA ARE INDICATORS OF BALANCE OF PAYMENTS TRENDS, FIGURES ON WHICH WILL NOT BE OUT UNTIL LATER. THESE TRANSACTIONS DATA SHOW A DEFICIT ON PHILIPPINE TRADE FOR THE FIRST HALF OF 1978 OF $460 MILLION, 77 PCT HIGHER THAN THE $259 MILLION DEFICIT LAST YEAR. IMPORT PAYMENTS ROSE 24 PCT COMPARED WITH THE SAME SIX-MONTH PERIOD LAST YEAR, EXPORT RECEIPTS GREW BY ONLY 13 PCT. DESPITE INCREASED SURPLUSES IN NON-MERCHANDISE TRADE AND NET TRANSFER PAYMENTS, THE CURRENT ACCOUNT DEFICIT INCREASED FROM $47 MILLION TO $161 MILLION, WHILE A NET NON-MONETARY CAPITAL INFLOW OF $244 MILLION CONTRIBUTED TO AN OVERALL TRANSACTIONS SURPLUS OF $83 MILLION.

2. BASED ON STUDIES OF THE PHILIPPINE TRADE CYCLE AND THE POOR PROSPECTS IN THE MAJOR EXPORT CATEGORIES, THE TRADE DEFICIT MAY CONTINUE TO WIDEN DURING THE REST
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OF THE YEAR. THE IMF MISSION PROJECTED EARLY THIS YEAR A SMALL BALANCE OF PAYMENTS DEFICIT FOR 1978, AS ESTIMATED TRADE AND CURRENT ACCOUNT DEFICITS OF AROUND $1 BILLION ARE EXPECTED TO BE PARTLY OFFSET BY NET CAPITAL INFLOWS OF MORE THAN $900 MILLION. MORE SUBSTANTIAL CAPITAL INFLOWS, HOWEVER, WILL PROBABLY BE NEEDED TO SUPPORT OPTIMISTIC GOP EXPECTATIONS OF A

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$100 MILLION SURPLUS. END SUMMARY.

3. BALANCE OF PAYMENTS AND BALANCE OF TRADE DATA FOR THE FIRST SIX MONTHS ARE NOT YET AVAILABLE, BUT PRELIMINARY FOREIGN EXCHANGE RECEIPTS AND DISBURSEMENTS DATA RELEASED BY THE CENTRAL BANK INDICATE THAT IMPORT PAYMENTS IN THE FIRST SEMESTER OF 1978 WERE $1,950 MILLION, 24 PCT HIGHER THAN THE SAME PERIOD LAST YEAR. EXPORT EARNINGS WERE ONLY 13 PCT HIGHER. THE RESULTING TRADE PAYMENTS DEFICIT GREW TO $460 MILLION. FOLLOWING ARE COMPARATIVE FIRST SEMESTER FIGURES FOR 1977 AND 1978 (IN $ MILLION):

-	JAN-JUNE 1977	JAN-JUNE 1978	DIFFERENCE	PERCENT CHANGE
EXPORT RECEIPTS	1,314	1,490	176	13.4
IMPORT PAYMENTS	1,573	1,950	377	24.0
BALANCE	-259	-460	-201	77.6

4. ACCELERATION OF IMPORT PAYMENTS IS APPARENTLY DUE TO INCREASED DOMESTIC INVESTMENT AND MANUFACTURING ACTIVITY. EXPORT EARNINGS, ON THE OTHER HAND, ARE SUFFERING FROM PRICE AND VOLUME DECLINES IN SUGAR, LIMITED OFFICIAL USE

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COPPER AND NICKEL EXPORTS. THE GROWTH TREND OF NON-TRADITIONAL EXPORTS SLOWED SLIGHTLY FOM A HIGH HISTORICAL RATE OF MORE THAN 40 PCT SINCE 1970 TO ABOUT 35 PCT IN THE FIRST SIX MONTHS OF 1978, REFLECTING SLOW ECONOMIC GROWTH IN THE DEVELOPED COUNTRY MARKETS FOR SUCH PRODUCTS AS GARMENTS, FOOTWEAR, PROCESSED WOOD AND ELECTRONIC PRODUCTS.

5. SURPLUSES ON NON-MERCHANDISE TRADE AND NET TRANSFER PAYMENTS REGISTERED GAINS OF 55 PCT AND 34 PCT, RESPECTIVELY, NOT ENOUGH TO OFFSET THE WIDENING TRADE PAYMENTS DEFICIT. THE CURRENT ACCOUNT PAYMENTS DEFICIT WAS UP FROM $47 MILLION IN THE FIRST HALF OF 1977 TO $161 MILLION THIS YEAR.

6. THE NET NON-MONETARY CAPITAL INFLOW OF $244 MILLION WAS 15 PCT BELOW LAST YEAR'S LEVEL, AS OUTFLOWS LED BY PAYMENTS ON SHORT-TERM BORROWINGS SHOWED MARKED INCREASES. THE OVERALL TRANSACTIONS SURPLUS, $83 MILLION, IS ABOUT ONE-THIRD OF LAST YEAR'S FIGURE.

7. THE CENTRAL BANK ENGAGED IN NET AVAILMENTS OF

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$152 MILLION, IN CONTRAST WITH ITS NET REPAYMENTS OF $417 MILLION IN THE FIRST SIX MONTHS LAST YEAR. CB RESERVES INCREASED BY $391 MILLION.

8. THE FOLLOWING TABLE SUMMARIZES THE EXTERNAL TRANSACTIONS PICTURE FOR THE FIRST HALF OF 1977 AND 1978 (IN $ MILLION):

- FOREIGN EXCHANGE RECEIPTS & DISBURSEMENTS

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INFO OCT-01 ISO-00 SP-02 ICA-11 AID-05 EB-08 NSC-05
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-			PERCENT
-	ITEM	1977	1978 CHANGE
A. CURRENT TRANSACTIONS			
- MERCHANDISE			
- TRADE-NET	-259	-460	77.6
- EXPORTS	1,314	1,490	13.4
- IMPORTS	1,573	1,950	24.0
- NON-MERCHAN-			
- DISE TRADE -			
- NET 1/	103	160	55.3
- RECEIPTS	487	630	29.4
- DISBURSE-			
- MENTS	379	470	24.0
- TRANSFERS - NET	104	139	33.7
- RECEIPTS	105	140	33.3
- DISBURSE-			
- MENTS	1	1	---
- CURRENT INFLOW			

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- (OUTFLOW) -47 -161 242.6
B. NON-MONETARY
CAPITAL 2/
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- LONG-TERM
- CAPITAL - NET 168 192 14.3

- INFLOW 417 622 49.2

- OUTFLOW 249 430 72.7

- ITEM 1977 1978 PERCENT CHANGE

- SHORT-TERM
- CAPITAL - NET 120 50 -58.3

- INFLOW 142 160 12.7

- OUTFLOW 22 110 500.0

- ERRORS AND
- OMISSIONS 1 2 ---

- NON-MONETARY
- CAPITAL,
- INFLOW (OUT-
- FLOW) 289 244 -15.6
C. OVERALL
SURPLUS (DEFICIT) 242 83 -65.7

NOTES: 1/ - INCLUDES U.S. GOVERNMENT EXPENDITURES.

- 2/ - EXCLUDES TRANSACTIONS PERTAINING TO
- CENTRAL BANK FOREIGN LOANS
9. ACCORDING TO ESTIMATES MADE BY THE IMF MISSION WHICH
VISITED MANILA LAST FEBRUARY FOR THE SEMI-ANNUAL REVIEW
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OF THE EXTENDED FUND FACILITY PROGRAM, THE 1978 TRADE
DEFICIT IS LIKELY TO BE A LITTLE MORE THAN $1 BILLION.
THE CURRENT ACCZ
NT WILL PROBABLY REACH THE SAME FIGURE,
HIGHER THAN IN 1977, AS NO MATERIAL CHANGES IN THE TRANSFERS
AND SERVICES ACCOUNTS" ARE EXPECTED. WHILE DISBURSEMENTS OF

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MEDIUM- AND LONG-TERM DEBT ARE EXPECTED TO RISE SHARPLY
FOR A NET INFLOW OF OVER $900 MILLION, THE SHORT-TERM CAPITAL
POSITION IS EXPECTED TO REGISTER A SIZABLE NET OUTFLOW IN THE
COURSE OF GOP DEBT RESTRUCTURIN, RESULTING IN A SMALL OVER-
ALL BALANCE OF PAYMENTS DEFICIT.
10. CENTRAL BANK GOVERNOR LICAROS, HOWEVER, REPORTED RECENTLY
THAT THE "BETTER THAN EXPECTED" PERFORMANCE OF THE EXTERNAL
SECTOR, PARTICULARLY IN THE NON-MERCHANDISE AND CAPITAL ACCOUNTS
DURING THE FIRST SEMESTER, HAS CAUSED EARLIER PROJECTION OF THE
1978 BALANCE OF PAYMENTS TO BE REVISED FROM DEFICIT TO SURPLUS.
ACTUAL FIGURES HAVE NOT BEEN RELEASED BUT THE PRESS QUOTED
LICAROS AS PREDICTING A $100 MILLION SURPLUS.

11. COMMENT: THESE PRELIMINARY TRANSACTIONS FIGURES
WILL BE REVISED AND IN ANY CASE ARE NOT THE SAME AS
BALANCE OF PAYMENTS DATA. THEY NEVERTHELESS SHOW
TRENDS IN TRADE AND PAYMENTS FLOWS, AND INDICATE THAT
THE TRADE PICTURE HAS DETERIORATED SINCE THE FIRST
QUARTER. PRIVATE STUDIES ON THE PHILIPPINE EXTERNAL
TRADE CYCLE HAVE SHOWN THAT EXPORTS GENERALLY REACH
THEIR PEAK IN THE LATTER PART OF THE FIRST SEMESTER,
WHILE IMPORTS TEND TO PICK UP IN THE SECOND HALF.
THIS CYCLE WILL PROBABLY HOLD TRUE FOR 1978. WE
EXPECT THAT EARNINGS FROM SUGAR WILL BE SLIGHTLY
LESS THAN TWO-THIRDS OF LAST YEAR'S EARNINGS AT BEST,
THAT COPPER AND NICKEL PRICES WILL REMAIN LOW AS
WORLD DEMAND IS STILL DEPRESSED, ALTHOUGH TOTAL
RECEIPTS FROM COCONUT PRODUCT EXPORTS ARE LIKELY TO
EXCEED LAST YEAR'S LEVEL. SLOW GROWTH IN THE IN-
DUSTRIALIZED ECONOMIES AND INCREASING PROTECTIONIST
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OBSTACLES FACING PHILIPPINE NONTRADITIONAL EXPORTS
STILL RELATIVELY NEW TO THE WORLD MARKET POINTS
TOWARD A SLOWDOWN OF THIS HIGH PERFORMER. THE EARLIER
IMF PROJECTION ON TRADE AND CURRENT ACCOUNT LOOKS
SOMEWHAT OPTIMISTIC, AND SUBSTANTIAL CAPITAL INFLOWS
WILL BE NEEDED TO MAKE GOOD ON GOVERNOR LICAROS'
PREDICTION OF AN OVERALL $100 MILLION SURPLUS. END
COMMENT. MURPHY

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